BOOK RECOMMENDATION

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Behavioral Finance and investment decisions

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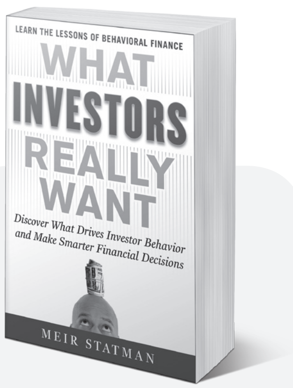
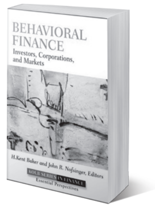
The way we look to investment decision has changed over time and behavioral finance has changed it radically: it provides an integrated view that describes how decision is actually made instead of how it should be from a strictly rational point of view. The attention is centered in the decision-maker, instead of in the decision itself, and in the cognitive, psychological, emotional and social aspects, that affect him in the decision process, are taken into account. Consequently, the markets function, from the behavioral finance perspective, is seen as the aggregation of those individual decisions. Challenging the traditional view, behavioral finance has the power to explain not only how people in fact make financial decisions but also how to improve them. **Cristiana Cerqueira Leal**, Professor of Finance at Minho University (Portugal), suggests the following readings:



WHAT INVESTORS REALLY WANT: Know what drives investor behavior and make smarter financial decisions.

Meir Statman. United States: McGraw-Hill; November 2010; 296p.

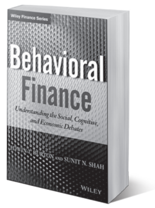
Meir Statman is a pioneer in behavioral finance studies and this book aggregates the author's view and research over decades in a storytelling approach. He emphasizes that investors are normal people, explores the mind-sets and motivations behind the major money decisions and most common mistakes that they make every day. It explores the main motivations behind investors' decision, concentrating in what they really want and conducting them to more successful financial decision.



BEHAVIORAL FINANCE: Investors, corporations, and markets.

Kent Baker and John Nofsinger (Editors). Hoboken: John Wiley & Sons Inc., 2010, 757p.

The book is a collection of chapters contributed by different authors. A comprehensive book that provides a synthesis of essential topics in behavioral finance that range from the pillar foundations to recent developments. It covers the key concepts, the psychological and behavioral biases and its applications to finance, namely, in asset pricing, asset allocation and market prices; corporate managerial behavior; investor behavior and investment decision; and cultural and social influences.



BEHAVIORAL FINANCE: Understanding the social, cognitive, and economic debates.

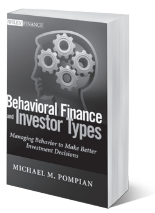
Edwin Burton and Sunit Shah. Hoboken: John Wiley & Sons Inc., 2013, 256p.

The authors depart from the discussion of Efficient Market Hypothesis to introduce and describe the key findings in behavioral finance. With a broad view over behavioral finance topics, every part of the book departs from the knowledge established in traditional finance and discusses it, introducing the evidence that has emerged in recent decades by behavioral finance. The authors cover from noise trading and anomalies to serial correlation, equity premium puzzle, experimental economics and neuro-economics.

FINANÇAS COMPORTAMENTAIS: Quando a economia encontra a psicologia.

Júlio Lobão. Lisboa: Actual Editora, 2012, 296p.

A comprehensive book about the foundations of behavioral finance. The author discusses the rational paradigm in finance, presenting its limits and biases. It provides a good perspective of the debate between traditional and behavioral finance. The main biases in investor decision are presented and the limits to arbitrage are discussed deeply. Written in Portuguese, it is a good introductory book to the field.



BEHAVIORAL FINANCE AND INVESTOR TYPES: Managing behavior to make better investment decisions.

Michael Pompian. Hoboken: John Wiley & Sons Inc., 2012, 232p.

The author classifies investors in four main groups according to personality types: preservers, followers, independents and accumulators. The book includes a test for determining investment type and offers strategies to use when investing. Particularly useful to understand the biases associated with investors' type and how to deal with to improve investment decisions or to know how to advise clients for the purpose of reaching their financial goals.